



Global Economy Report

November-December 2016



Global Economy Report

The Global Economy Report is prepared in cooperation by the Macroeconomic Research Division of Banca Aletti and the Global Governance Programme of the Robert Schuman Centre for Advanced Studies of the European University Institute.

The objective of the Report is to provide an analysis of the current and expected macroeconomic and financial conditions at the global level, with also a focus on key economic areas such as Europe, the USA and ASIA.

This report has been prepared by:

- Daniele Limonta (daniele.limonta@alettibank.it)
- Massimiliano Marcellino (massimiliano.marcellino@eui.eu)
- Alessandro Stanzini (alessandro.stanzini@alettibank.it)

with the collaboration of:

- Alberta Martino (albertamartino@gmail.com)

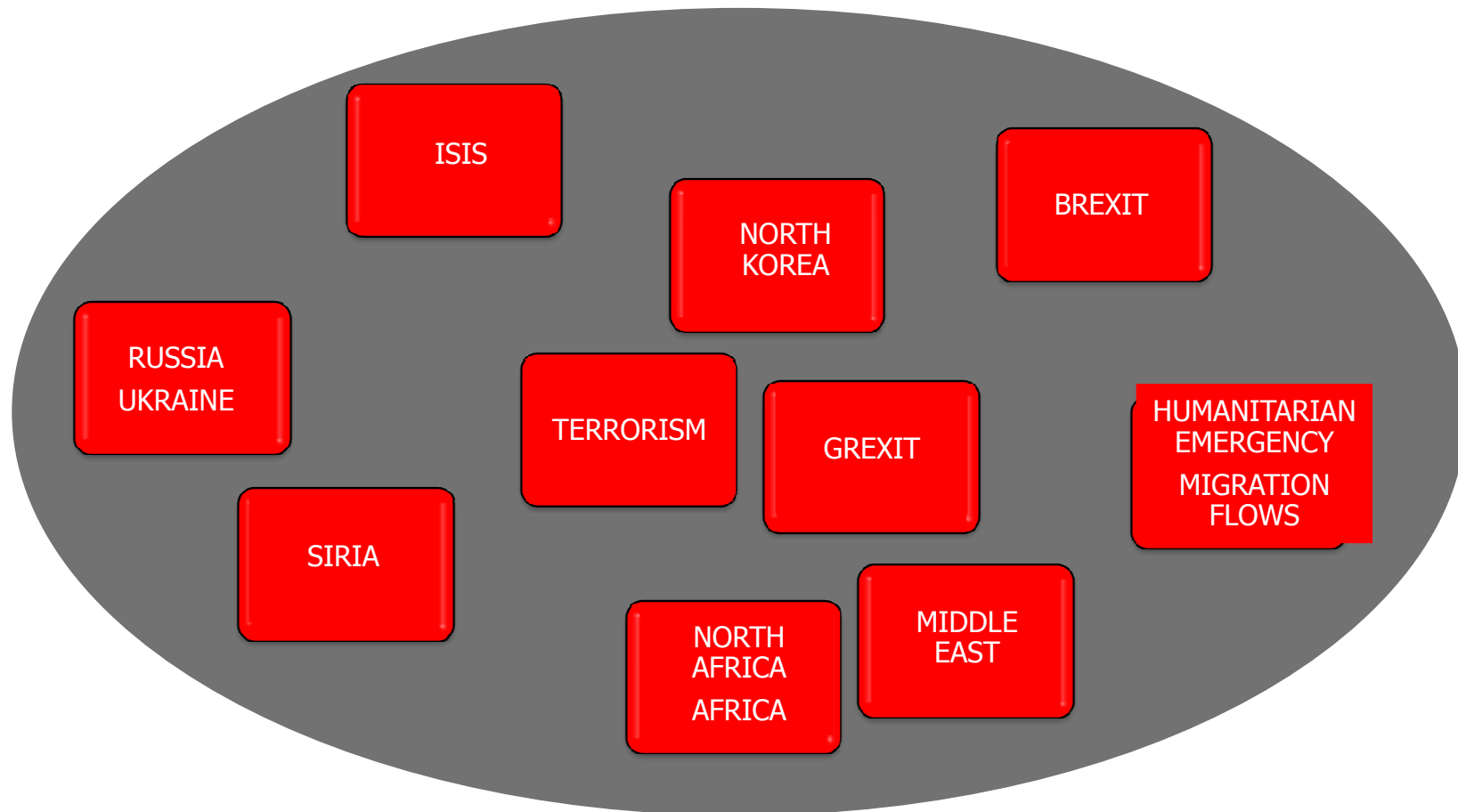
Report closed on October 28, 2016





EXECUTIVE SUMMARY

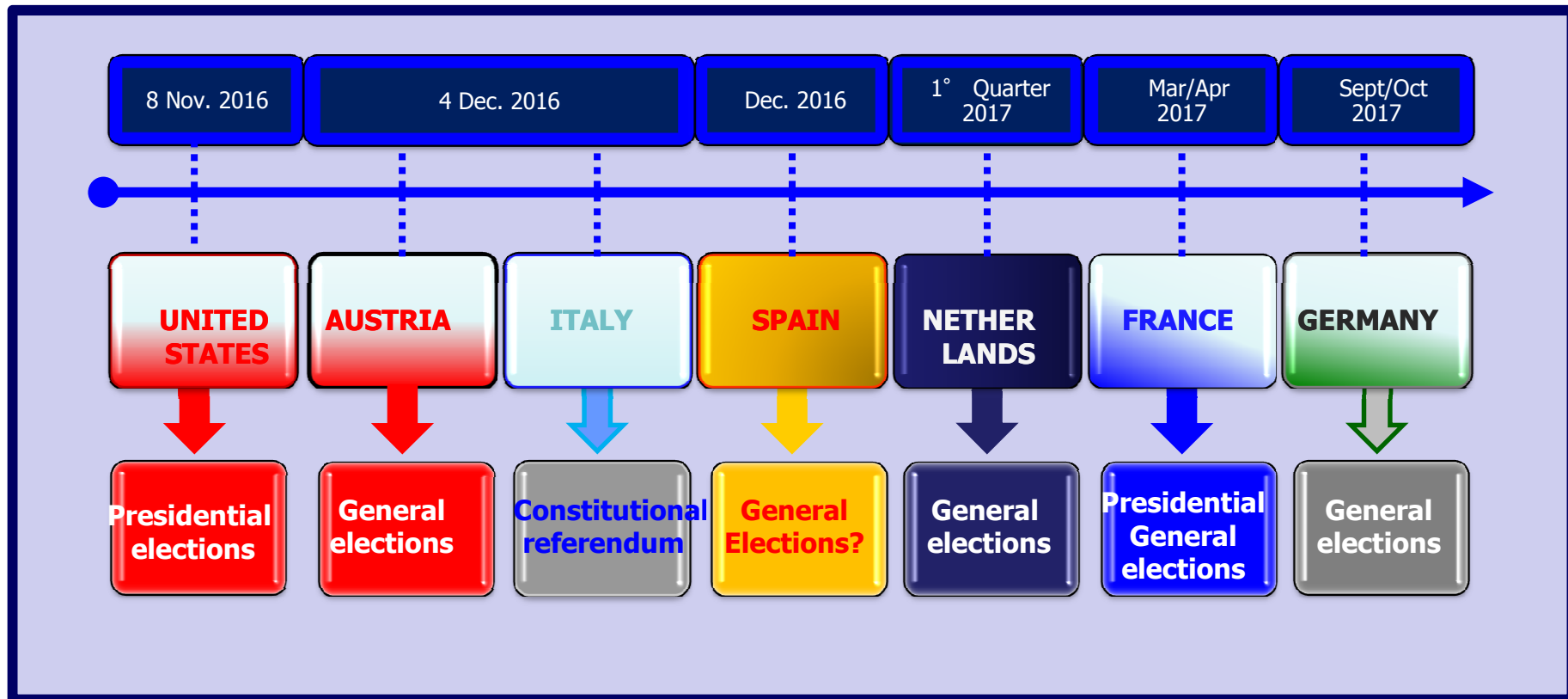
In the past two years, geopolitical risks have often dominated markets. Some of these have gradually lost their destructive potential, while others still pose uncertainty and volatility...





EXECUTIVE SUMMARY

... In the next twelve months there will be other risks, more political and less devastating, but the consequences may produce damaging effects.



IMF – GLOBAL ECONOMIC GROWTH

Line chart showing average yearly changes in GDP from 1990 to 2019. The red line represents global growth, which fluctuates significantly, peaking around 5.7% in 2007 and dropping to 0% in 2009. The blue dashed line indicates the 1990-2007 average of 3.7%. The area between the red line and the blue line is shaded, with blue for positive deviations and red for negative deviations.

Year	Global Growth (%)	1990-2007 Average (%)
1990	3.5	3.7
1991	2.5	3.7
1992	2.5	3.7
1993	3.6	3.7
1994	4.8	3.7
1995	2.5	3.7
1996	2.9	3.7
1997	4.3	3.7
1998	5.4	3.7
1999	4.9	3.7
2000	5.5	3.7
2001	5.5	3.7
2002	5.6	3.7
2003	5.7	3.7
2004	3.0	3.7
2005	0.0	3.7
2006	5.4	3.7
2007	4.2	3.7
2008	3.5	3.7
2009	3.3	3.7
2010	3.4	3.7
2011	3.1	3.7
2012	3.1	3.7
2013	3.4	3.7
2014	3.1	3.7
2015	3.1	3.7
2016	3.4	3.7
2017	3.6	3.7
2018	3.7	3.7
2019	3.7	3.7

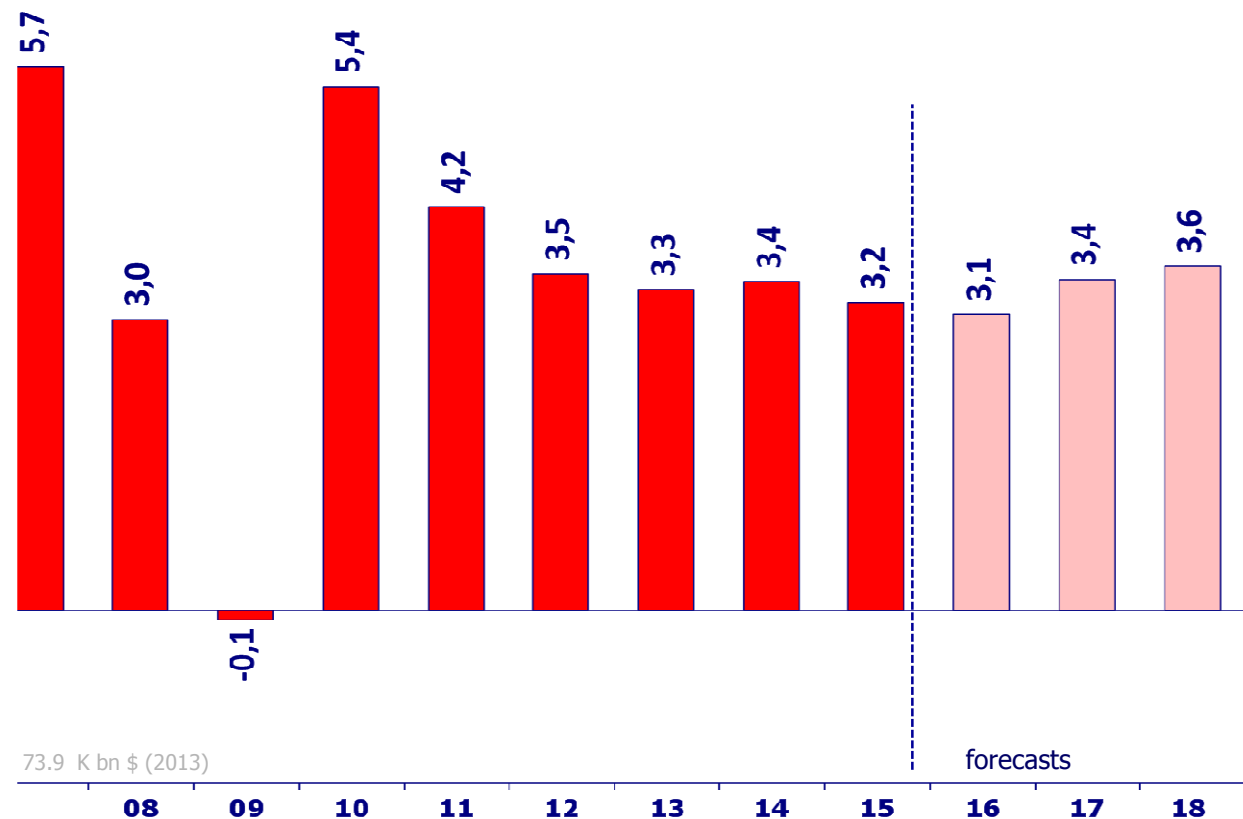


EXECUTIVE SUMMARY

The risk of being trapped permanently in low growth exists. The IMF has produced a new report in October where it confirms slow global dynamics.

IMF – GLOBAL ECONOMIC GROWTH

Average yearly changes - World Economic Outlook - Oct. 2016





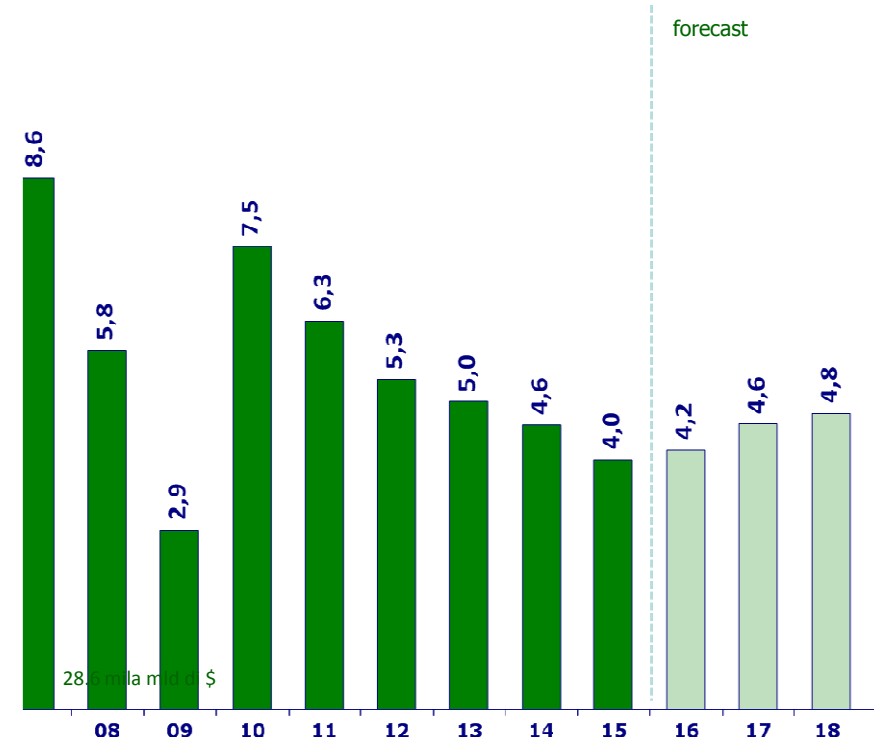
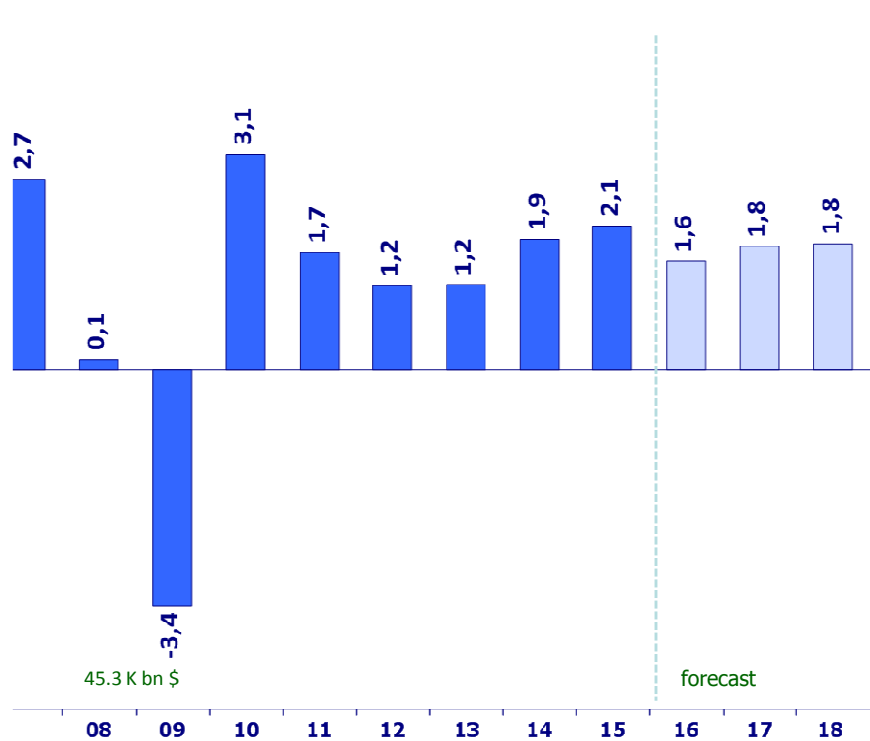
EXECUTIVE SUMMARY

According to the IMF, the risk would be curbed by governments if they could use fiscal policy in a more decisive and targeted way, working on infrastructure, finance, business and innovation. Monetary policies have done much, but their effectiveness is destined to decrease in the coming months...

IMF – MAJOR ECONOMIES

IMF – EMERGING ECONOMIES

Average yearly changes - Economic Outlook - Oct. 2016



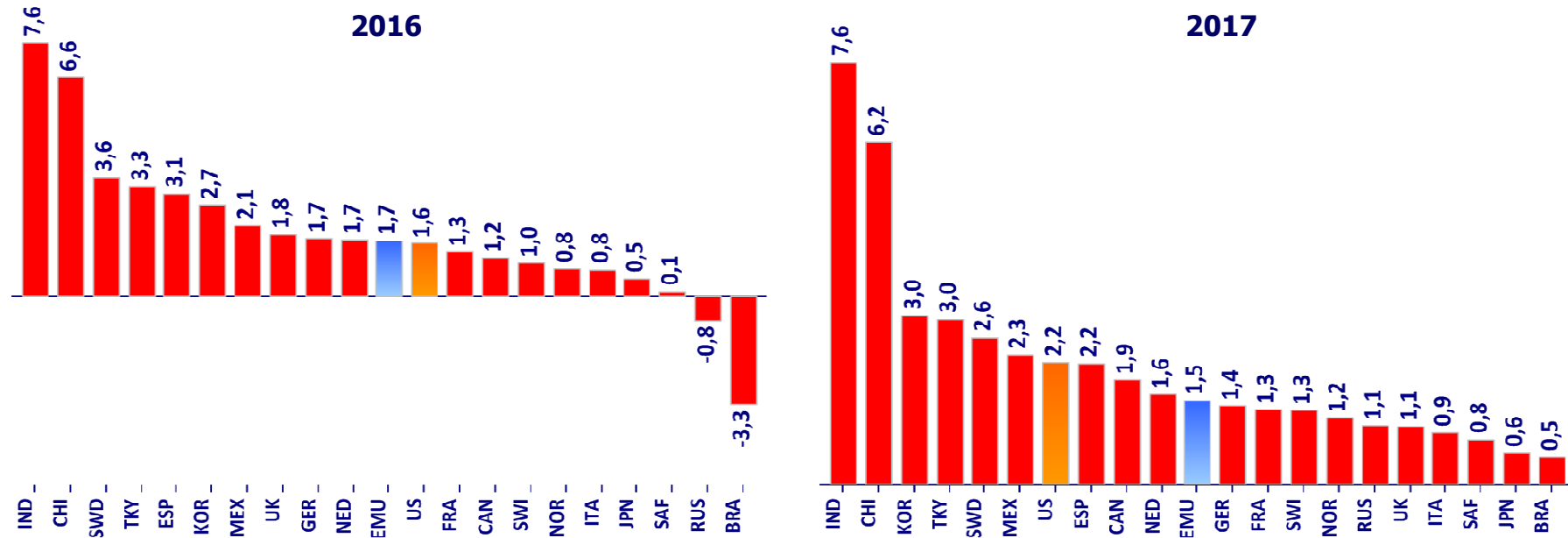


EXECUTIVE SUMMARY

Among single areas, systemic reforms must be carried out with greater determination. Globalisation for certain population groups (related to social position, type of job, ...) in different areas of the world has created negative effects that overshadow the positive effects.

IMF – GLOBAL ECONOMIC GROWTH

Average yearly changes - World Economic Outlook - Oct. 2016



EXECUTIVE SUMMARY

International trade, limited so far by a persistent negative scenario and by protectionism, needs further development. Thus old and more recent tariffs must be abolished, to give globalisation a new impulse.

IMF – GLOBAL ECONOMIC GROWTH

Average yearly changes - World Economic Outlook - Oct. 2016

	2011	2012	2013	2014	2015	2016e	diff.	2017e	diff.
PIL (% a/a)									
CRESCITA GLOBALE	4,2	3,4	3,3	3,4	3,2	3,1	0,0	3,4	0,0
ECONOMIE AVANZATE	1,7	1,2	1,4	1,9	2,1	1,6	-0,2	1,8	0,0
STATI UNITI	1,6	2,3	2,2	2,4	2,6	1,6	-0,6	2,2	-0,3
EUROZONA	1,6	-0,8	-0,3	0,9	1,7	1,7	0,1	1,5	0,1
GERMANIA	3,0	0,7	0,2	1,6	1,5	1,7	0,1	1,4	0,2
FRANCIA	2,0	0,0	0,3	0,6	1,3	1,3	-0,2	1,3	0,1
ITALIA	0,4	-2,4	-1,7	-0,3	0,8	0,8	-0,1	0,9	-0,1
SPAGNA	0,1	-1,6	-1,2	1,4	3,2	3,1	0,5	2,2	0,1
GIAPPONE	-0,6	1,5	1,6	0,0	0,5	0,5	0,2	0,6	0,5
REGNO UNITO	1,1	0,3	1,7	3,1	2,2	1,8	0,1	1,1	-0,2
CANADA	2,5	1,7	2,0	2,5	1,1	1,2	-0,2	1,9	-0,2
ECONOMIE EMERGENTI	6,2	5,1	5,0	4,6	4,0	4,2	0,1	4,6	0,0
RUSSIA	4,3	3,4	1,3	0,7	-3,7	-0,8	0,4	1,1	0,1
CINA	9,3	7,7	7,8	7,3	6,9	6,6	0,0	6,2	0,0
INDIA	6,6	4,7	6,9	7,2	7,6	7,6	0,2	7,6	0,2
BRASILE	2,7	1,0	2,7	0,1	-3,8	-3,3	0,0	0,5	0,0
MESSICO	4,0	4,0	1,4	2,2	2,5	2,1	-0,4	2,3	-0,3
SUDAFRICA	3,6	2,5	2,2	1,6	1,3	0,1	0,0	0,8	-0,2

The Economic Outlook for China and Japan



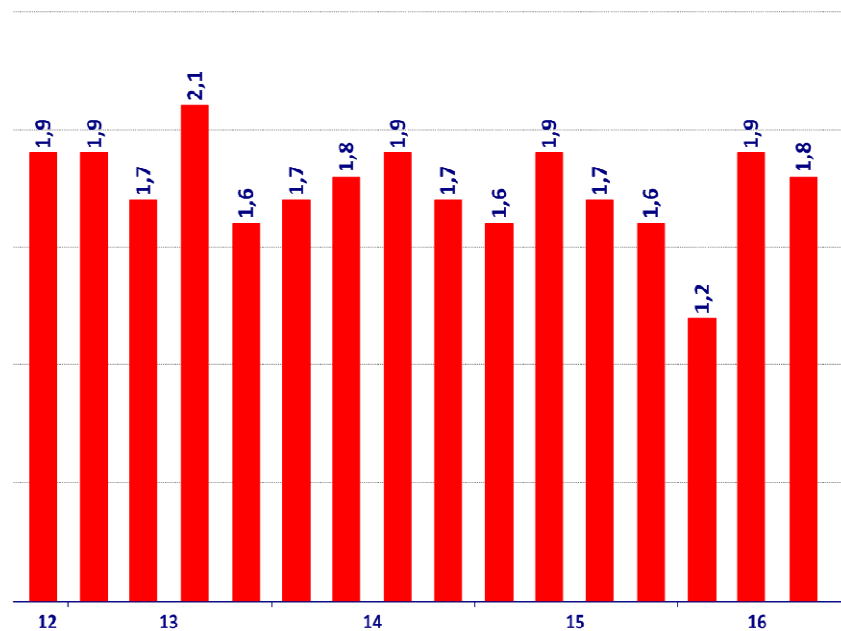


CHINA

In the third quarter, the total product confirmed its yearly 6.7% growth rate. On an annualised quarterly basis, the system grew by 1.8%. These values are consistent with the Government's 6.5-7% growth target. Public spending, real estate and consumption push the system but also inequalities are increasing.

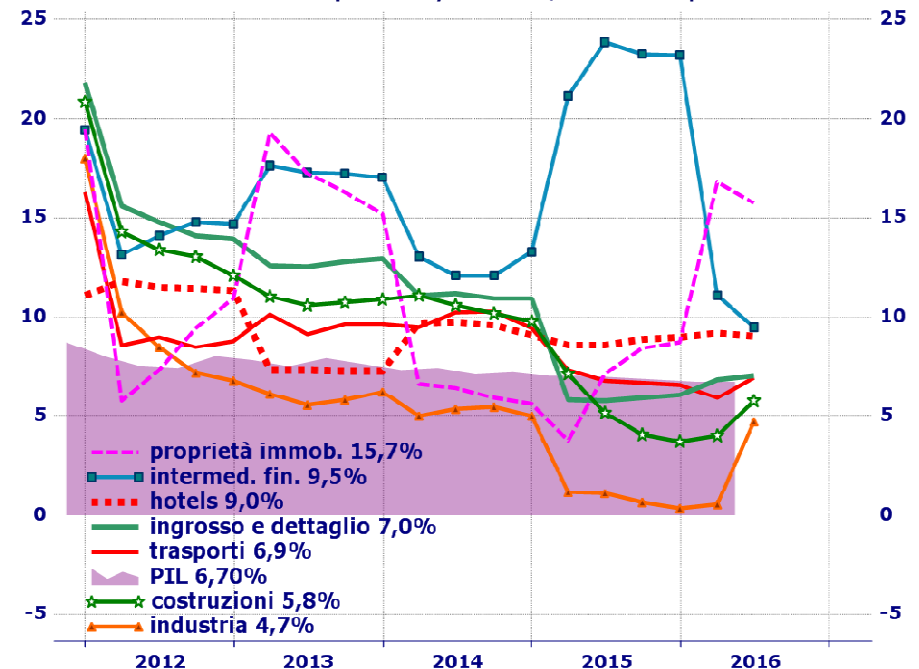
ECONOMIC GROWTH

GDP annualised quarterly values, third quarter

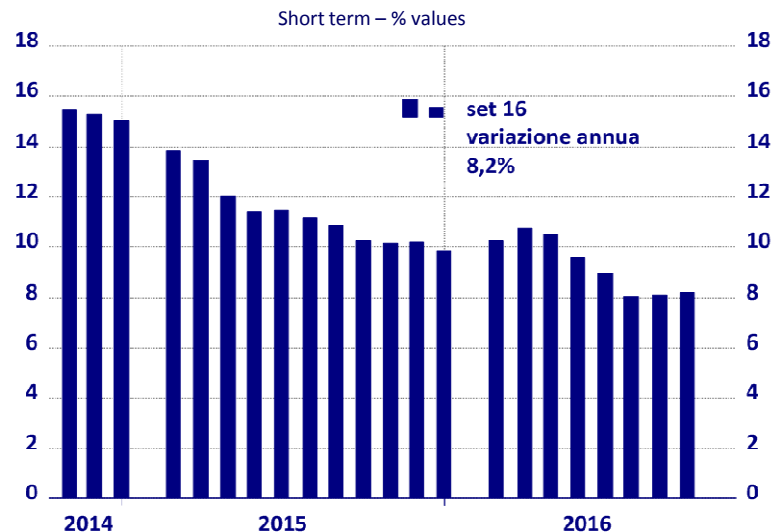


GDP MARGINAL VALUE BY SECTOR

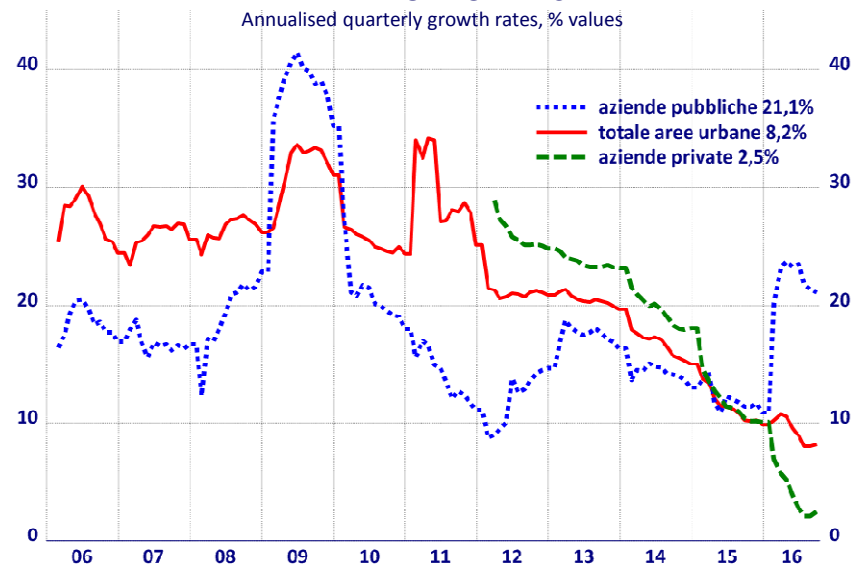
Annualised quarterly values, second quarter



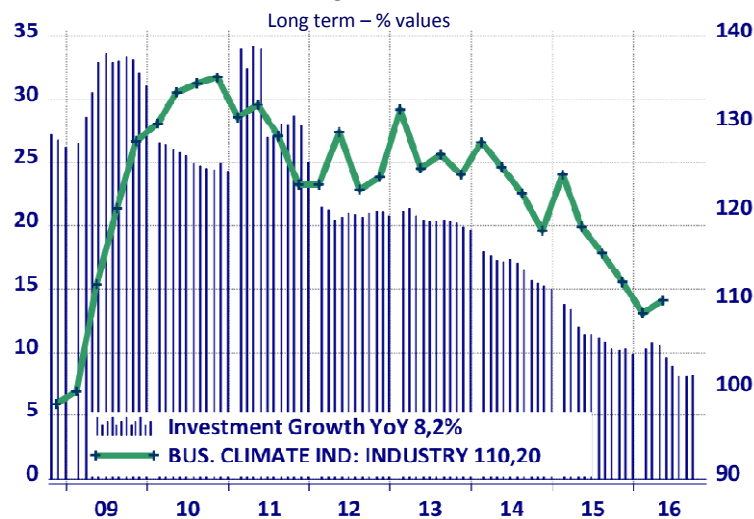
INVESTMENT EXPENDITURES



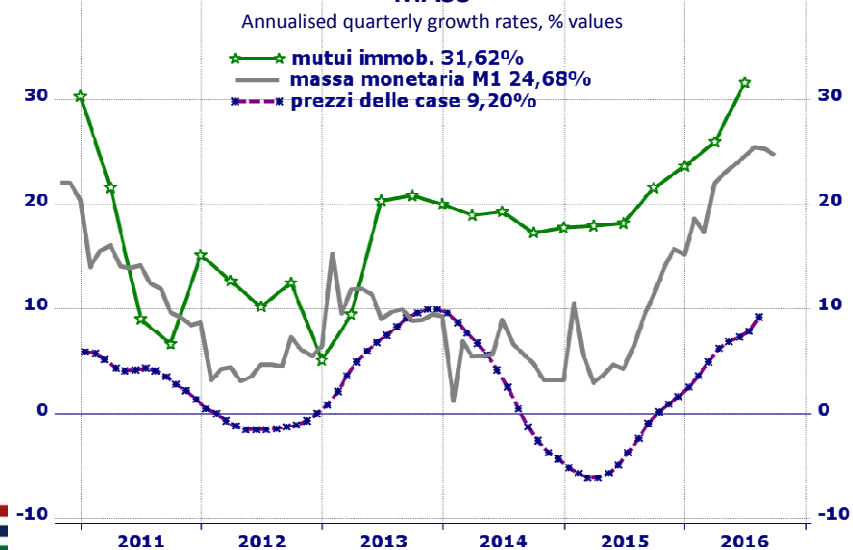
PRIVATE AND PUBLIC INVESTMENT



INVESTIMENT



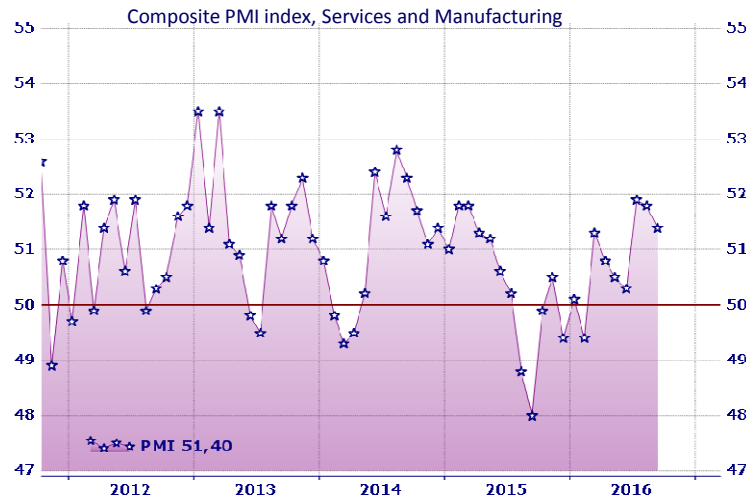
RESIDENTIAL MARKET AND MASSA MONETARY



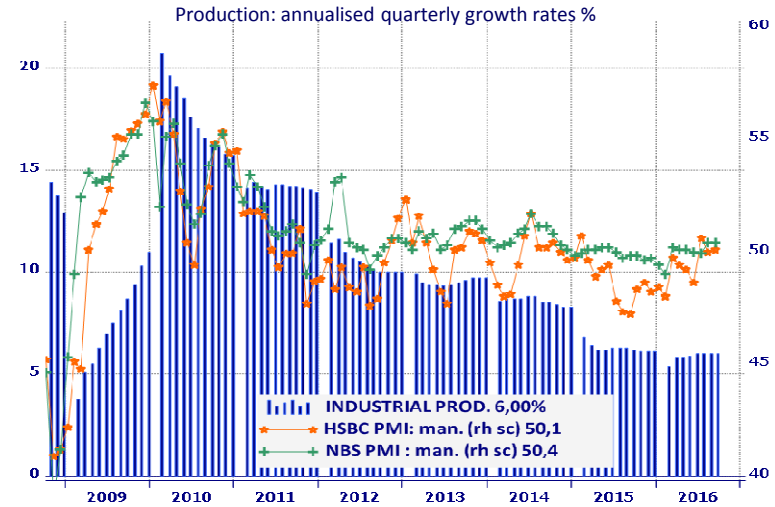


CHINA

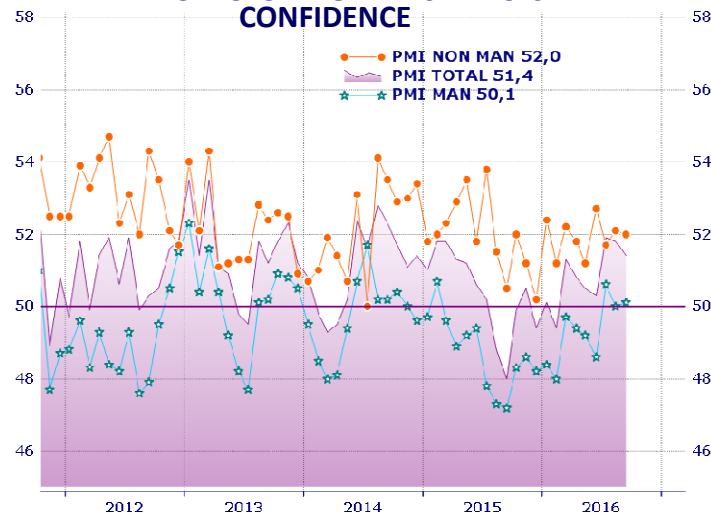
CONFIDENCE



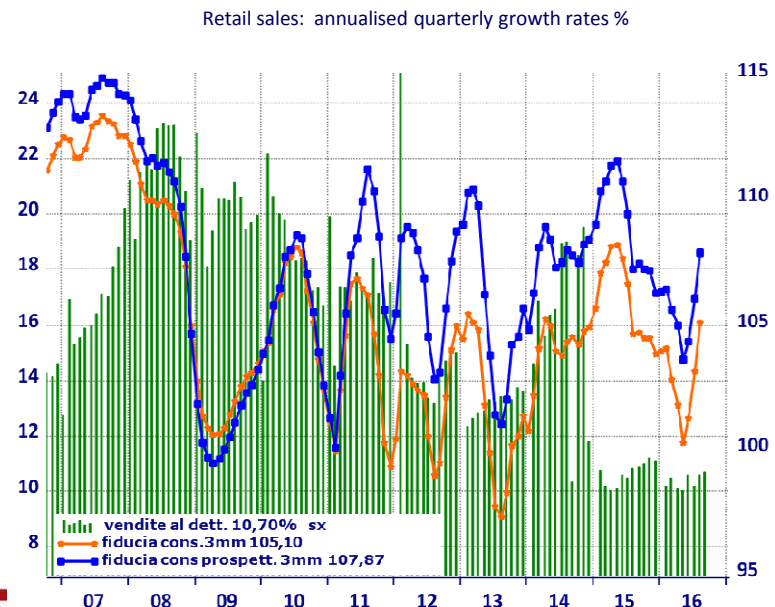
INDUSTRIAL PRODUCTION & CONFIDENCE



MANUFACTURING AND SERVICES CONFIDENCE



CONSUMER SPENDING & CONFIDENCE

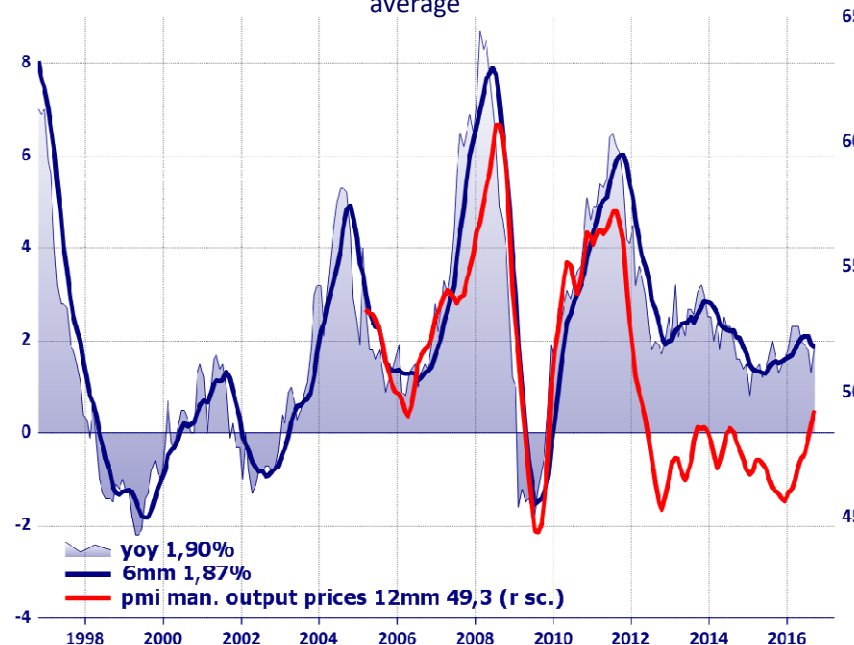


CHINA

Consumer price index returned to 1.9%, due to food prices' rebound (3.2%). Production prices are decreasing and recovering leading indicators signal a probably favourable evolution in the coming months. Foreign trade keeps falling as a trend...

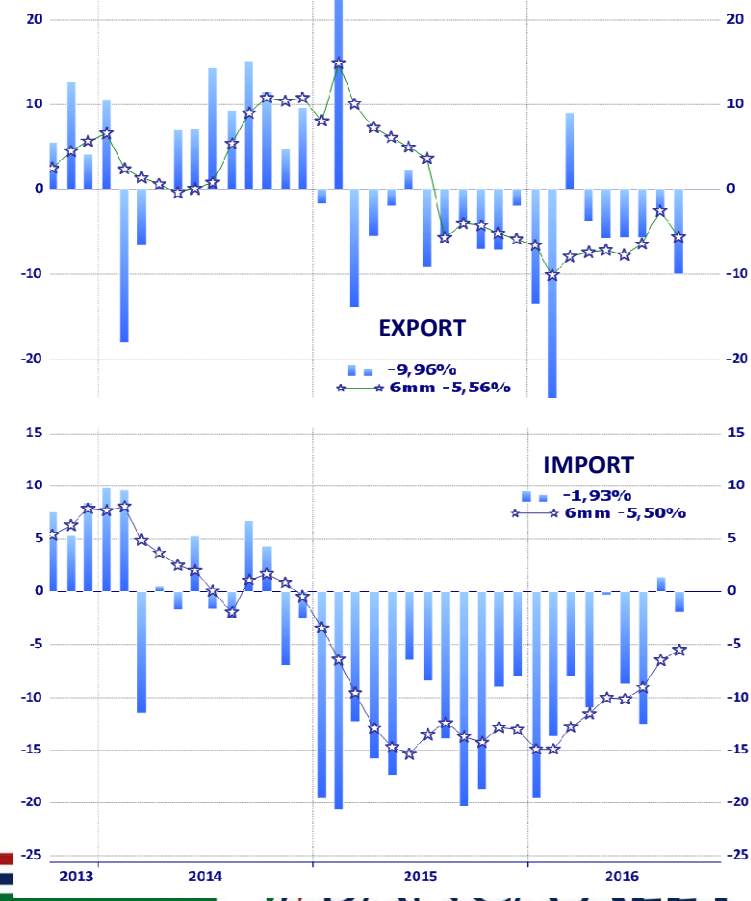
INFLATION AND LEADING INDICATOR

General inflation index, annualised quarterly, and six month moving average



FOREIGN TRADE

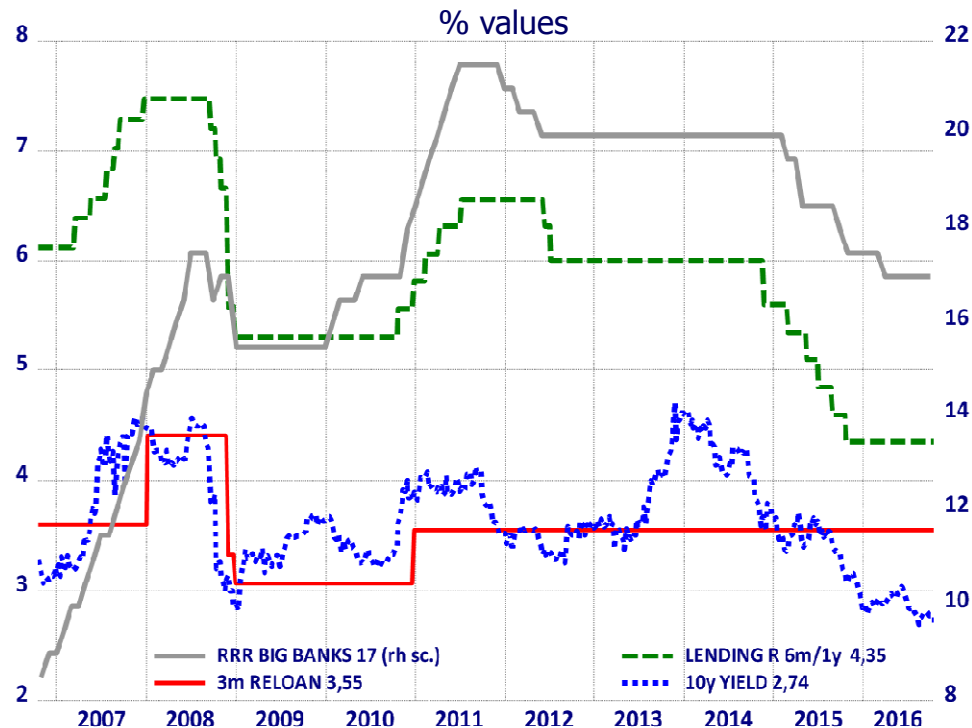
12 month change and six month moving average



CHINA

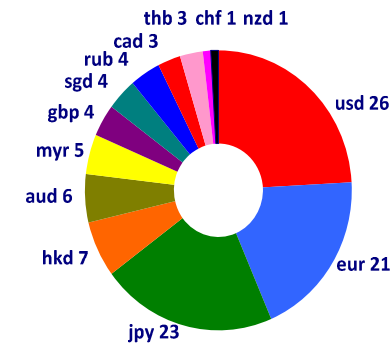
The difference in credit and income growth, the capacity to honour the debt service and the risk of increasing interest rates remain critical points, that according to the BIS could create very dangerous tensions in the financial system with a potential recession in three years.

CHINA – INTEREST RATES

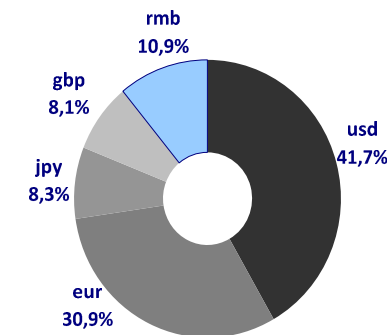


YUAN RENMIMBI

Basket composition



CFETS: China Foreign Exchange Trade System

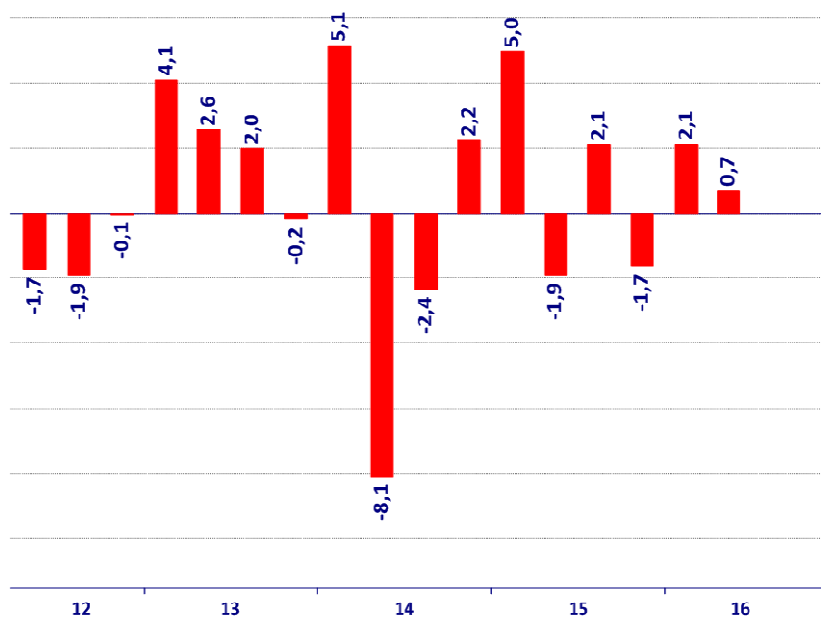


The DSP adjustment to the entry of yuan renmimbi will be effective from October 2016

The Japanese product has registered an increase in the second quarter of the year, growing by 0.7% in annualised quarterly terms. This represents a brusque slow down compared to the first quarter, a significant loss in impulse. The trend rate remains at 0.8%, confirming the system's unsatisfactory condition.

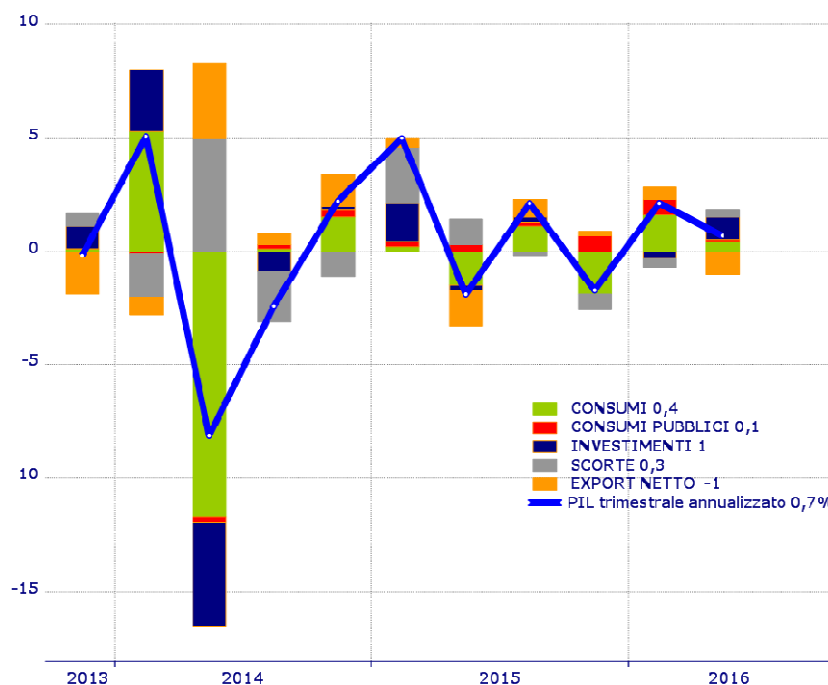
GDP

Annualised quarterly rates, % changes



GROWTH CONTRIBUTIONS

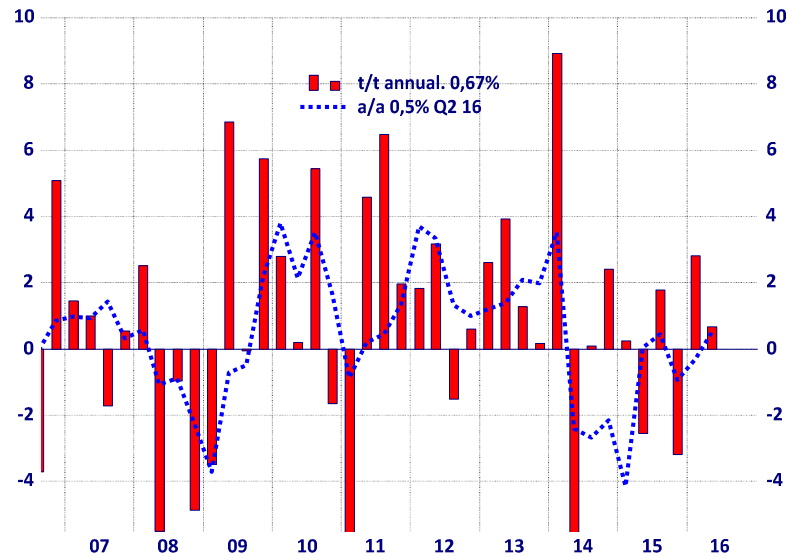
GDP percentage points



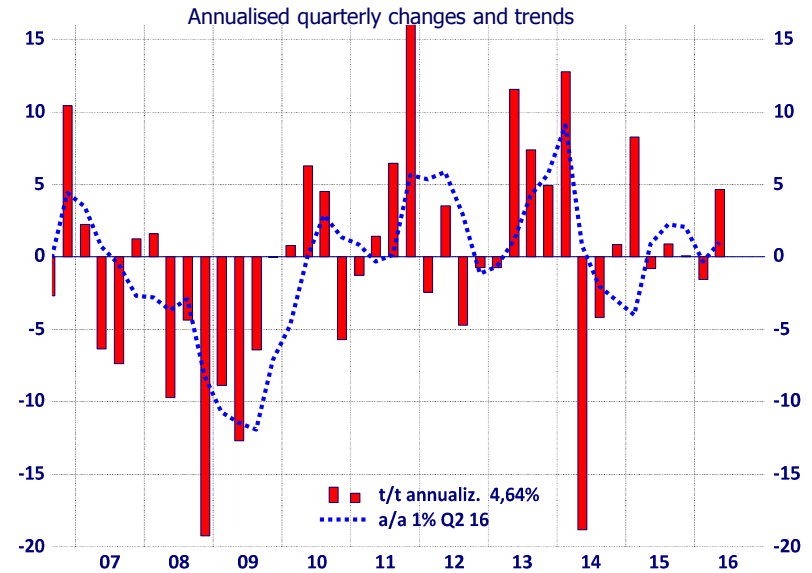


JAPAN

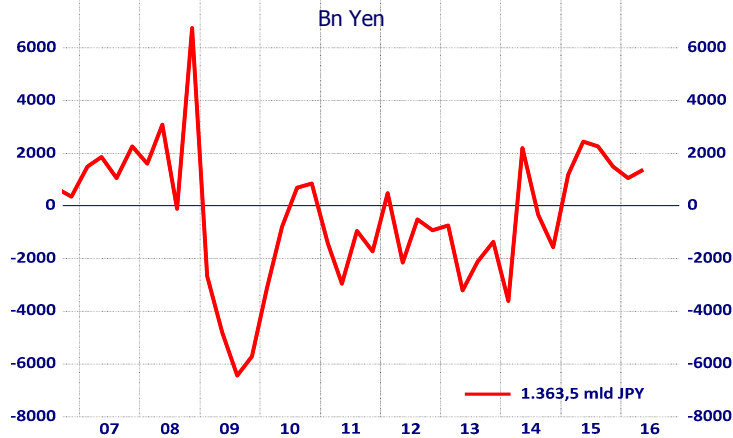
CONSUMPTION



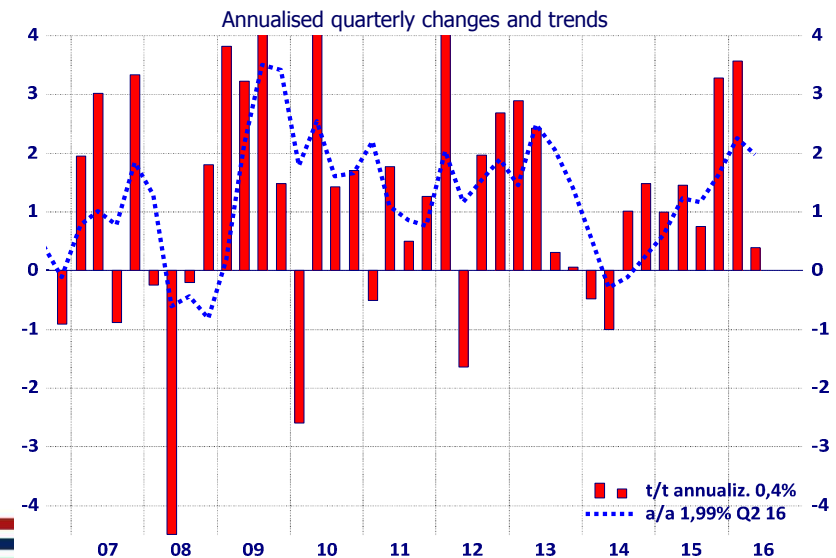
INVESTMENT



STOCKS



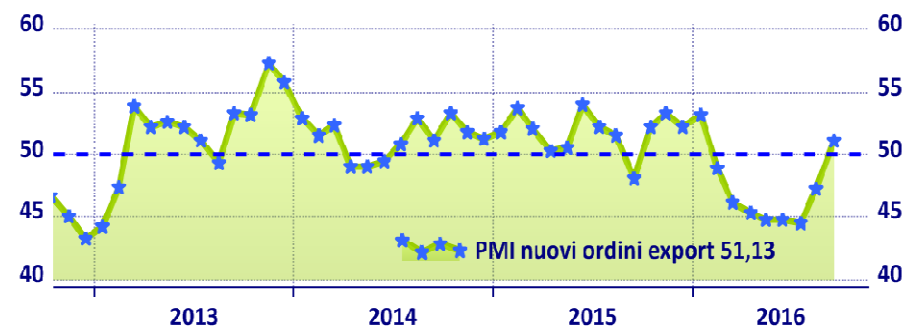
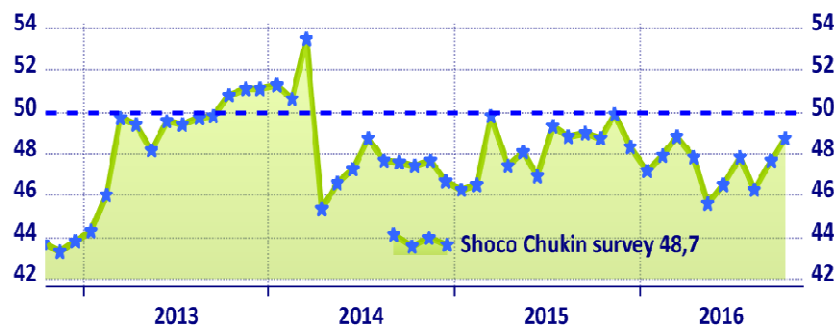
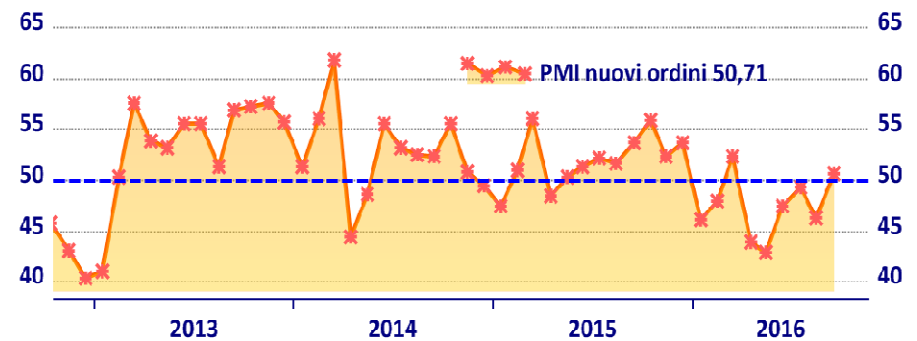
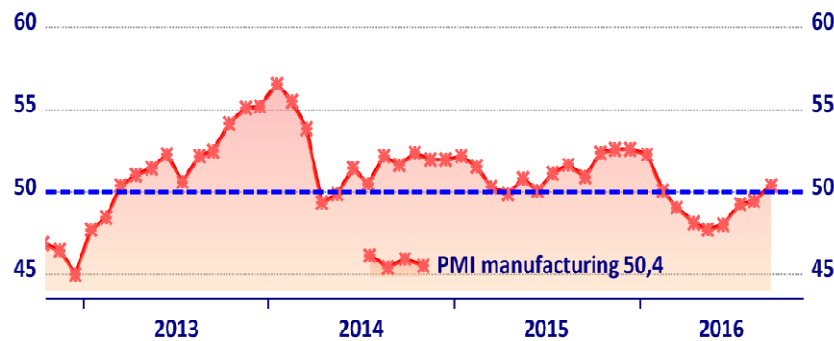
PUBLIC SPENDING



The forecasts for the coming months are for increasing growth, although modest. Manufacturing indexes rebounded thanks to orders, but continue to signal frailty in the system, persisting in contraction area.

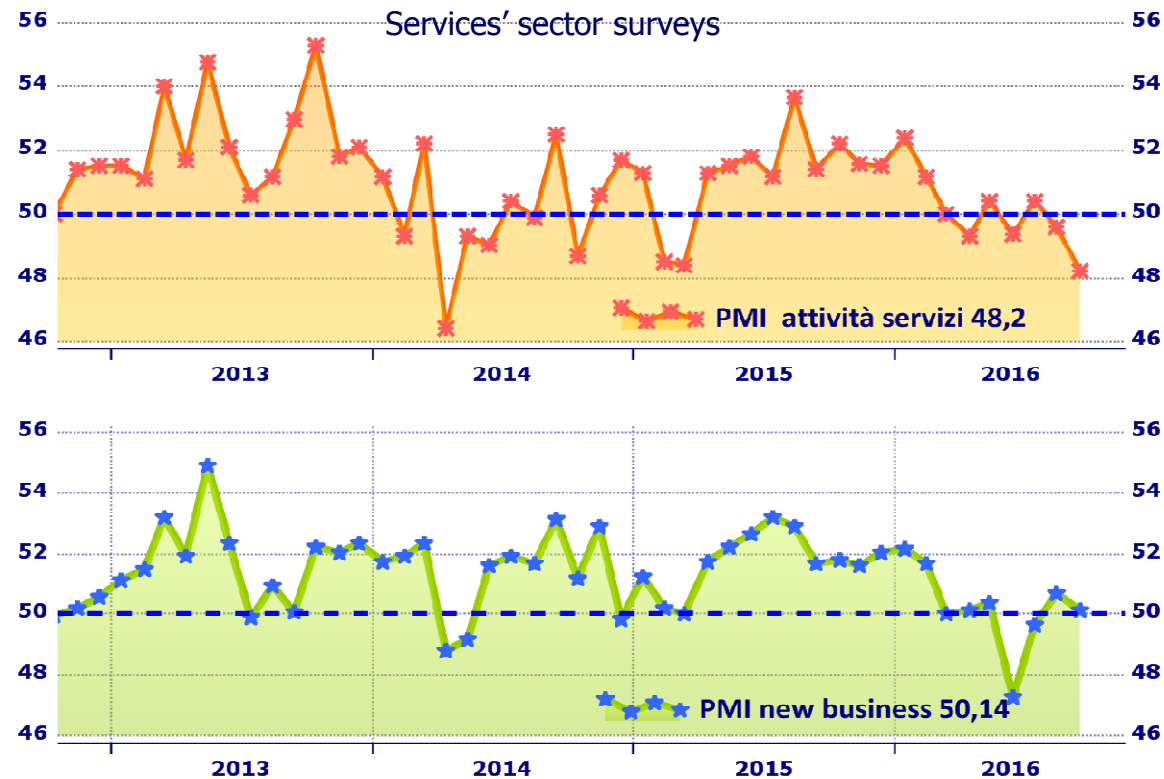
JAPAN – LEADING INDICATORS

Manufacturing sector surveys



Services' sector is more favourable thanks to consumers' conditions (real incomes, employment, imported prices...), that will benefit from prime minister Abe's supplementary budget stimulus worth around 28 trillion yen (276 bn \$).

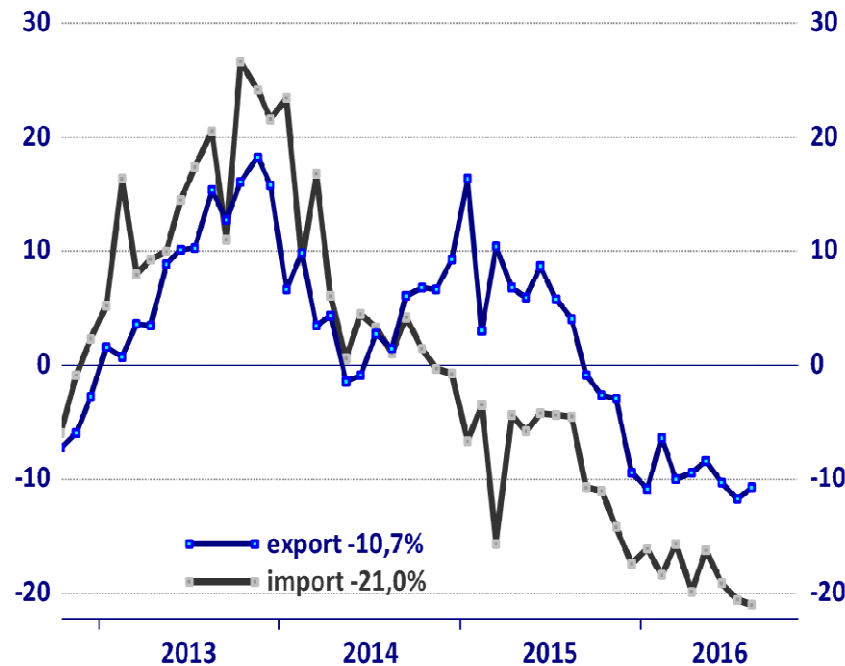
JAPAN – LEADING INDICATORS



Foreign trade still signals negative annualised quarterly rates: on an annual basis imports decreased by over 20%, while exports, traditionally a trigger for intense growth phases, are lower than last year by nearly 11%. Exports to Europe are growing (+10% volumes), bringing it to 9% of total exports, while traditional markets as China and USA are suffering (35% of total exports).

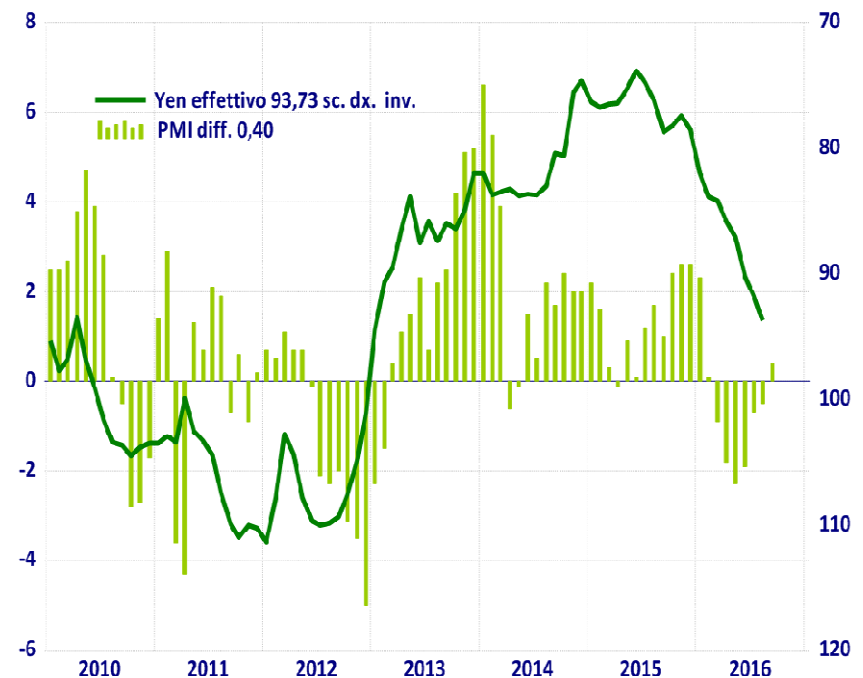
EXPORT - IMPORT

Growth rates



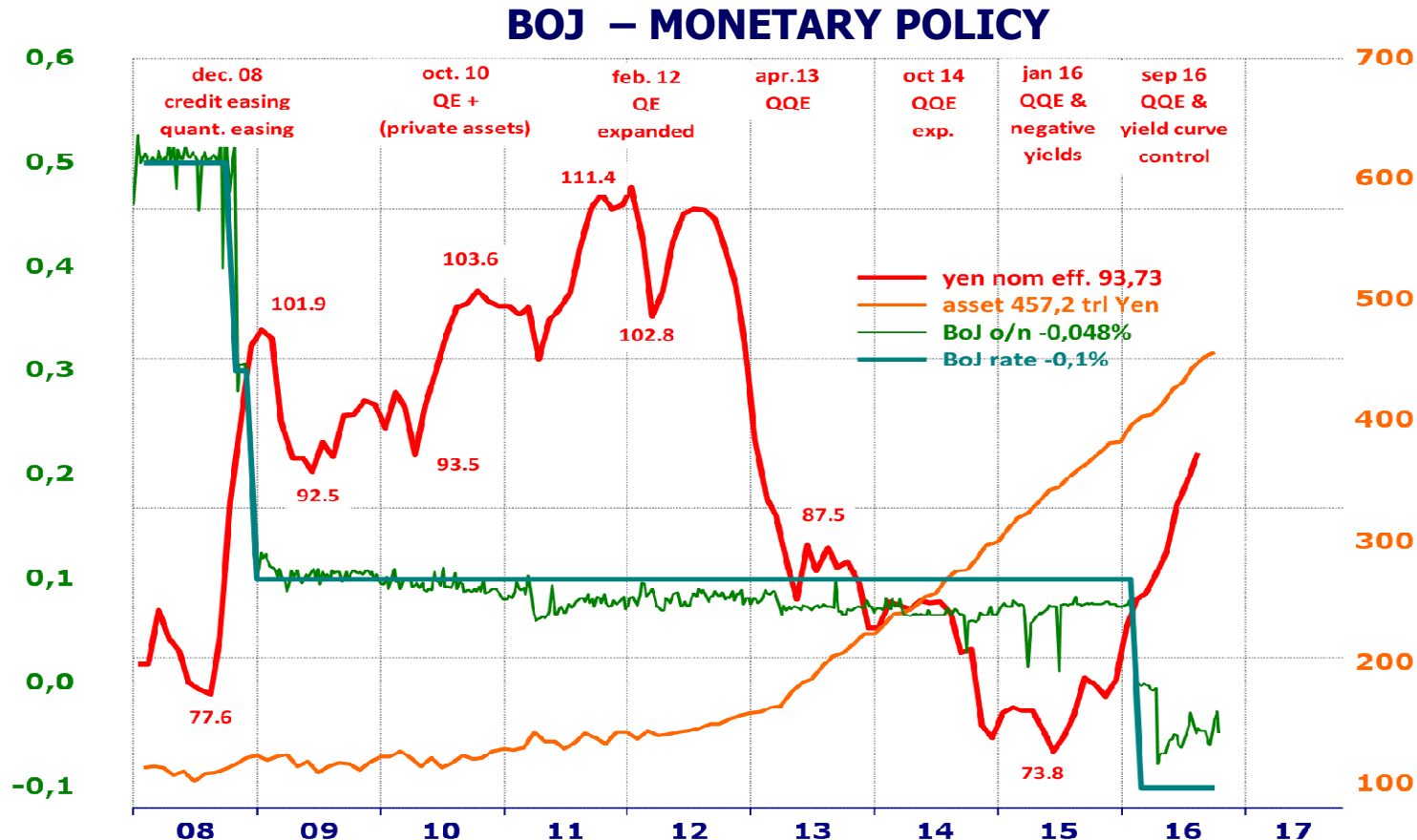
BUSINESS CONFIDENCE AND EXCHANGE RATE

PMI diff. 50 - Effective nominal exchange rate



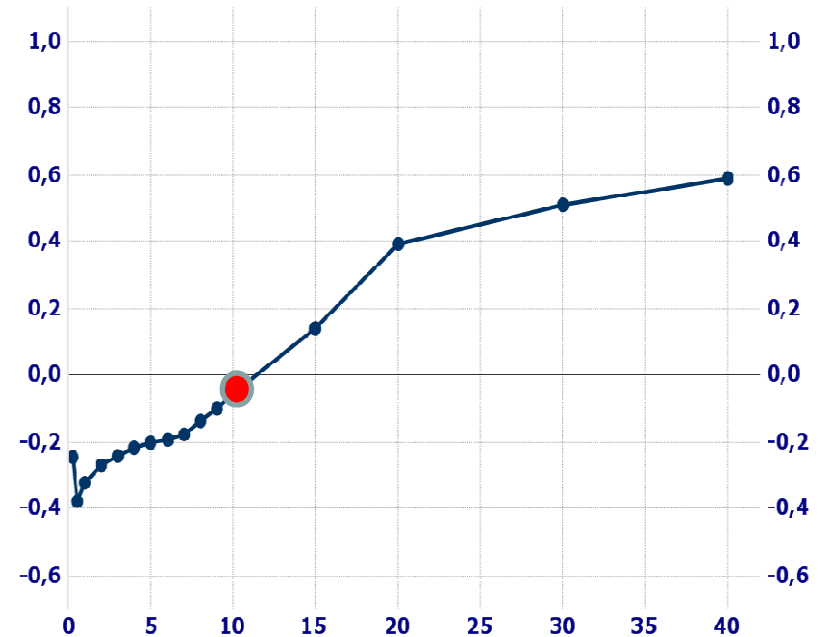
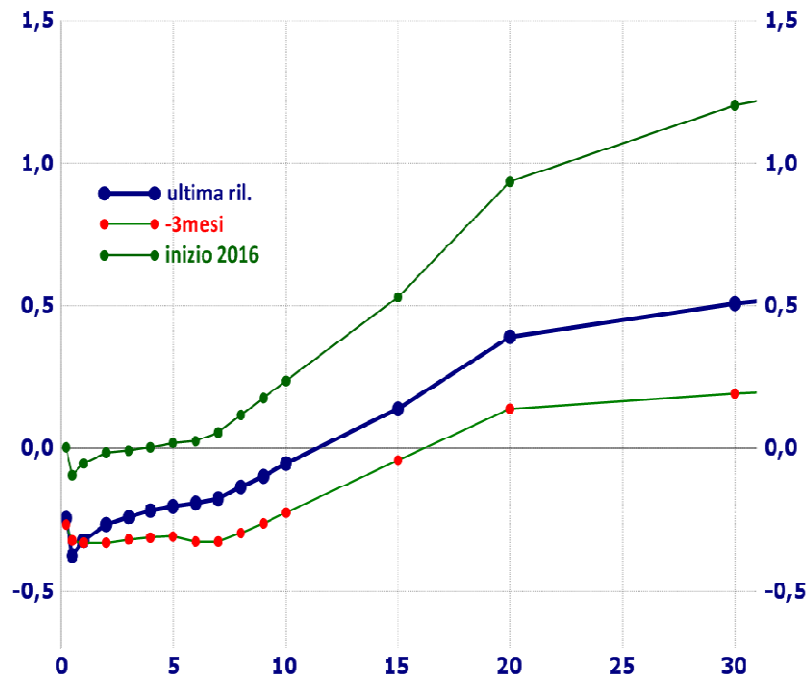
JAPAN

The yen has continuously appreciated since 2015, increasing its value by one fourth, according to the effective nominal rate. The appreciation against the dollar and the yuan renminbi has damaged the Japanese industries' competitiveness.



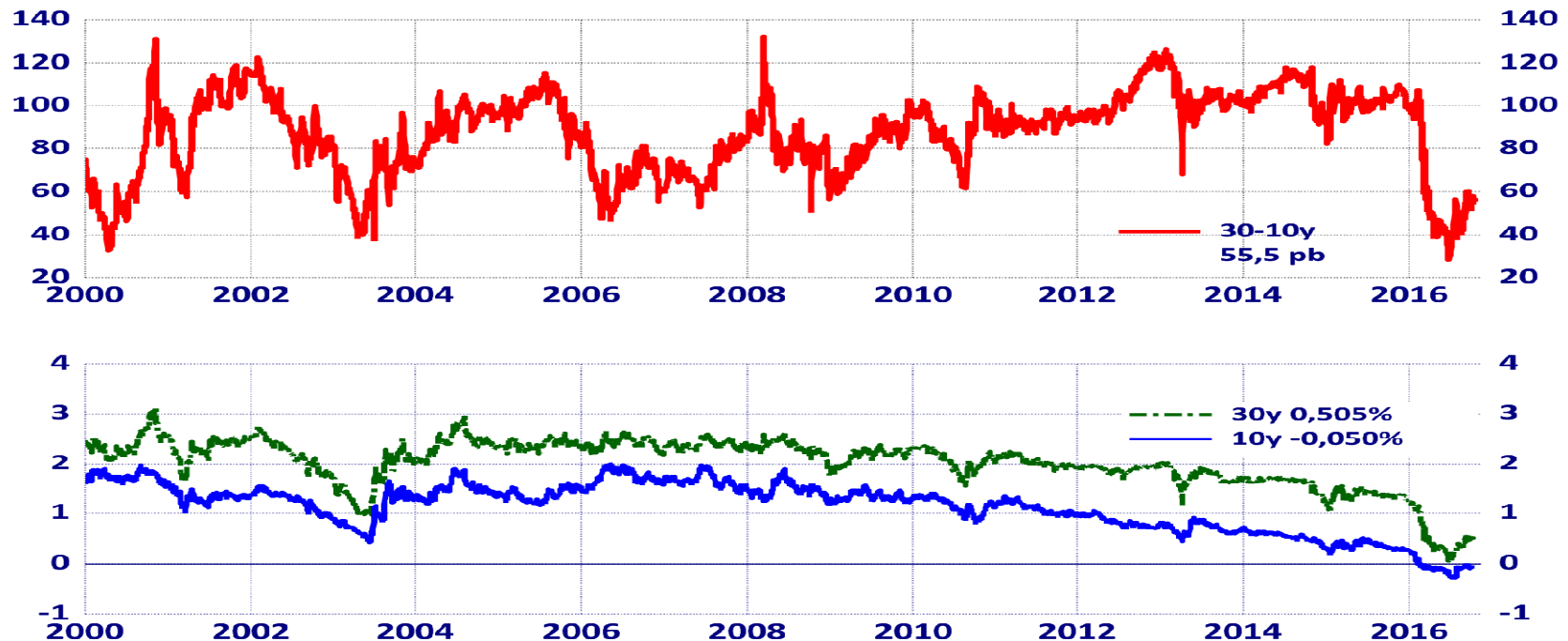
The BoJ has confirmed the two targets previously established, i.e. a possibly negative interest rate and monetary mass growth rate at 80 K bn per year, but has established a new QQE, to control the earnings curve.

YIELD CURVE



The acquisition of government securities will be done with two targets: to maintain the ten year yields around zero and to pilot the whole rate structure to favour those financial institutions whose accounts suffered due to negative rates.

SPREAD AND LONG TERM YIELDS



DISCLAIMER

The content of the preceding pages has been prepared by Banca Aletti&C. S.p.A. ("Banca Aletti") together with the European University Institute. Banca Aletti – belonging to the Gruppo Banco Popolare – is a broker authorized by law, listed in the Register of Banks, number 5383.

With this document Banca Aletti proposes to its customers' evaluation information retrieved from reliable sources in the system of financial markets and – where deemed necessary – its own opinion on the matter with possible commentary (notes, observations, evaluations).

We point out that the information provided, communicated in good faith and on the basis of data available at the moment, could be inexact, incomplete or not up to date and is apt to variation, even without notice, at any given moment.

This document cannot be in any way considered to be a sales or subscription or exchange offer, nor any form of soliciting sales, subscriptions or exchange of financial instruments or of investment in general and is neither a consulting in financial investment matters.

Banca Aletti is not responsible for the effects deriving from the use of this document. The information made available through the present document must not be considered as a recommendation or invitation on Banca Aletti's side to accomplish a particular transaction or to perform a specific operation.

Each investor should form his own independent persuasion, based exclusively on his own evaluations on the opportunity to invest. The decision to undertake any form of financial operation is at the exclusive risk of the addressees of the present disclaimer.

The source of all data and graphs is provided by Thomson Reuters where not otherwise specified.

